

13 June 2022

Eyeopener

More rate hikes needed

Today Polish balance of payments

NBP's Kochalski: room for rate hikes in July and September

NBP's Kotecki: we should not communicate the end of rate hikes

US CPI above forecasts, consumer sentiment worse than expected

Today Polish balance of payments data for April will be released. We expect deepening of current account gap, although a bit smaller than market consensus. No major data globally.

US CPI inflation rose in May to 8.6% beating expectations by 0.3pp and reaching the highest level since 1981. The **University of Michigan survey** of consumer inflation expectations was also historically very high (year-ahead expectations returned to a record 5.4% and 5-year expectations jumped from 3% to 3.3% setting a new record). The headline consumer sentiment index fell much more than the market expected and has never been lower (survey conducted since 2008).

In Q1 2022, there were almost 160k **job vacancies in the Polish economy**, 44% more than a year earlier and the most since Q2 2018. In the same period, 190 thousand new jobs were created, roughly the same as a year earlier, and 82 thousand were eliminated, 17% more than a year ago. Net job creation was therefore 108 thousand, and although this was slightly less than a year earlier (122 thousand), it is still more than the long-term average (92 thousand). Thus, at the beginning of the year the Polish economy was generating jobs faster than it was able to fill them, which translated into increased wage pressure.

Producer prices for business services accelerated to 5.1% y/y in Q1 2022 from 3.4% y/y in Q4 2021, with rental and lease prices rising the fastest. This was the highest growth rate since early 2017. This is an indicator that can be interpreted as a cost of third-party services in companies. We think cost pressures in enterprises will continue to intensify in the coming quarters of the year.

The **NBP president Adam Glapiński** said that inflation will gradually decline after the summer holidays, it should be under control in 2023, reaching 6% at the end of 2023 and declining below 5% in 2024. These forecasts are roughly in line with our expectations. MPC member **Ludwik Kotecki** pointed out that the government's policy is neutralizing and reversing the effect of rate hikes (according to May MPC minutes only 'some members' – meaning a minority - see this problem), it is possible that the NBP will have to return to rate hikes in 2023 if they are halted now. He also fears that inflation in 2023 will be close to this year's inflation. MPC's **Cezary Kochalski** sees room for further rate hikes in July and September. In his opinion, the likely range of rate changes is 50-75 bps, and the inflation peak will occur in Q3 2022. According to Kochalski, the Council members are determined to bring inflation down, but they perceive the risk of economic slowdown more strongly. We expect a 75bp hike in July and a 25bp hike in September. More on our view regarding the MPC and Poland's economic outlook in the new **MACROscope** edition "Approaching the top".

Head of NBP research Piotr Szpunar assessed that there is no need for active quantitative tightening (bond portfolio can be held to maturity) and monetary policy will continue to be driven by interest rates.

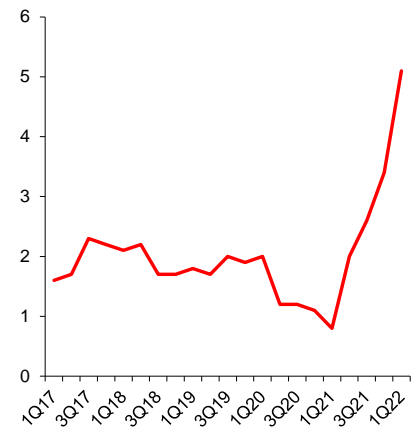
Higher US CPI inflation fuelled **EURUSD**'s decline below 1.05. We expect to see a hawkish message from the ECB in the coming weeks, which should allow the rate to stabilize. Still, the markets are in the risk-off mode after Friday's US data. FOMC decision will take place on Wednesday.

The **zloty**, pushed off balance with the MPC's changed stance, was unable to resist Friday's strengthening of the dollar and continuing strong declines on global equity markets. EURPLN extended its rise to 4.62. This week may prove to be particularly dangerous for the zloty, as we wrote more about in the **Weekly Economic Update**.

Other CEE currencies: the koruna lost slightly vs the euro, immunized against the unfavourable environment by comments from the central bank that current inflation is so strong that it poses a risk to the monetary policy scenarios shown in the projection. Besides, CNB board member Oldrich Dedek assured that no "dovish upheaval" is taking place at the bank, and while he continues not to support hikes, he also rejects the possibility of cuts this year. MNB deputy chairman Barnabas Virag assured about further strong Hungarian rate hikes in the second half of this year. Despite this, the EURHUF rose to 398.

On the **interest rate market**, Polish bonds continued to weaken, especially 10L (yield +20bp), with 10L Bund reaching 1.50% and 10bp increase in this segment in the US. This week we expect the upward trend to continue on the long end of the bond and swap curve, supported by inflation data and hawkish signals from central banks abroad. The Finance Ministry sold PLN4.4bn of bonds at the switching auction.

Prices in services for companies, % y/y



Source: ECB, Santander

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FX market

Today's opening			
EURPLN	4.6152	CZKPLN	0.1867
USDPLN	4.4046	HUFPLN*	1.1489
EURUSD	1.0483	RUBPLN	0.0773
CHFPLN	4.4529	NOKPLN	0.4500
GBPPLN	5.3990	DKKPLN	0.6205
USDCNY	6.7366	SEKPLN	0.4371

*for 100HUF

Last session in the FX market						10.06.2022
	min	max	open	close	fixing	
EURPLN	4.591	4.622	4.604	4.617	4.603	
USDPLN	4.318	4.395	4.331	4.388	4.336	
EURUSD	1.050	1.064	1.063	1.052	-	

Interest rate market 10.06.2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	7.21	22
DS0726 (5Y)	7.40	17
DS0432 (10Y)	7.23	29

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.71	9	3.06	23	0.86	10
2L	7.65	13	3.43	26	1.60	15
3L	7.43	17	3.40	24	1.80	13
4L	7.27	19	3.34	21	1.93	15
5L	7.16	20	3.29	19	2.00	14
8L	7.03	22	3.21	13	2.10	8
10L	7.00	23	3.20	11	2.20	8

WIBOR rates

Term	%	Change (bps)
O/N	5.82	7
T/N	6.03	-2
SW	6.09	-1
2W	6.10	0
1M	6.15	2
3M	6.77	1
6M	7.03	1
1Y	7.15	2

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.30	6
3x6	7.66	9
6x9	7.82	15
9x12	7.82	18
3x9	7.91	15
6x12	8.01	17

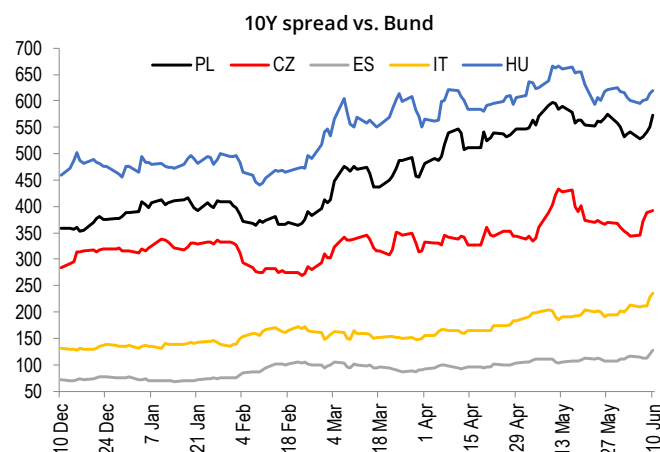
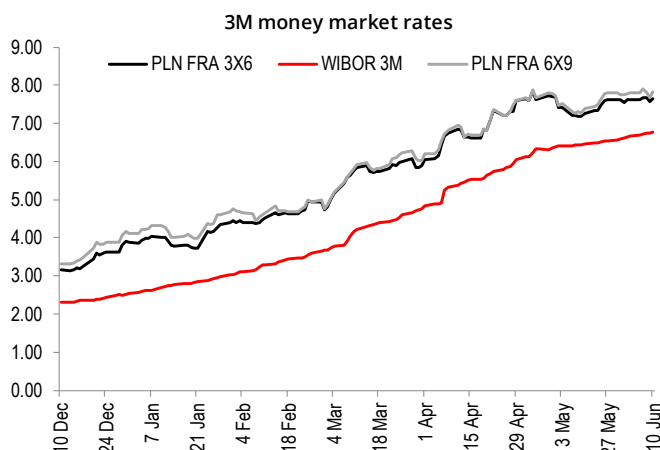
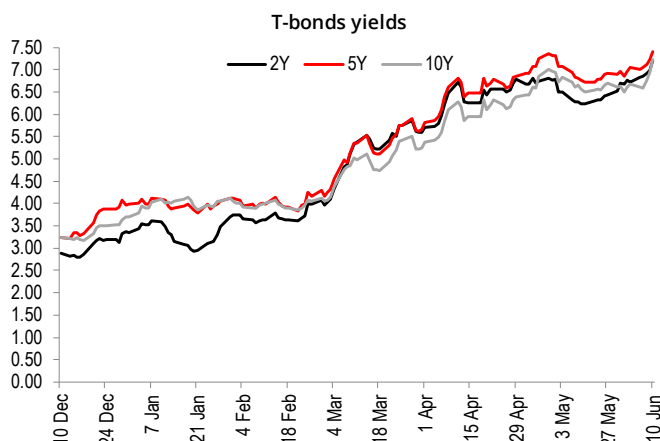
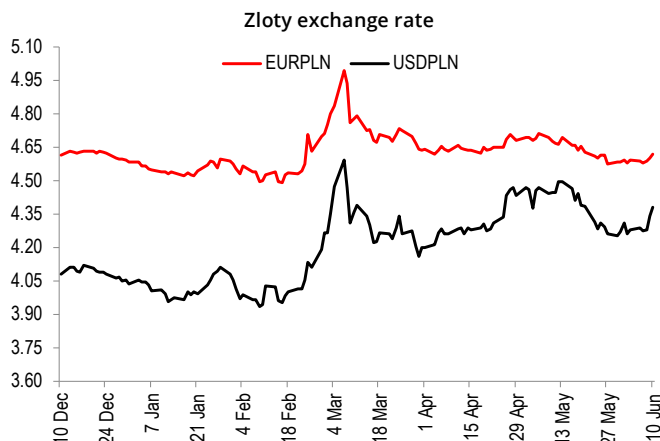
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	110	4	574	23
France	10	0	60	4
Hungary	147	0	620	6
Spain	60	0	127	8
Italy	70	0	235	7
Portugal	45	0	130	7
Ireland	12	0	68	5
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (10 Jun)								
09:00	CZ	CPI	May	% y/y	15.5	'-	16.0	14.2
14:30	US	CPI	May	% m/m	0.7	'-	1.0	0.3
16:00	US	Michigan index	Jun	pts	58.2	'-	50.2	59.1
MONDAY (13 Jun)								
14:00	PL	Current Account Balance	Apr	€mn	-3100	-2397		-2972
14:00	PL	Trade Balance	Apr	€mn	-2795	-2795		-3253
14:00	PL	Exports	Apr	€mn	27100	28165		25831
14:00	PL	Imports	Apr	€mn	30250	30960		29084
TUESDAY (14 Jun)								
08:00	DE	HICP	May	% m/m	1.1	-		1.1
11:00	DE	ZEW Survey Current Situation	Jun	pts	0	-		-36.5
WEDNESDAY (15 Jun)								
10:00	PL	CPI	May	% y/y	-	14.0		13.9
11:00	EZ	Industrial Production SA	Apr	% m/m	0.7	-		-1.8
14:30	US	Retail Sales Advance	May	% m/m	0.2	-		0.9
20:00	US	FOMC decision		%	1.5	-		1.0
THURSDAY (16 Jun)								
	PL	Corpus Christi						
09:30	CH	SNB decision		%	-	-		-0.75
14:30	US	Initial Jobless Claims	week	k	206	-		229
14:30	US	Housing Starts	May	% m/m	-0.58	-		-0.2
FRIDAY (17 Jun)								
11:00	EZ	HICP	May	% y/y	8.1	-		8.1
14:00	PL	CPI Core	May	% y/y	8.5	8.5		7.7
15:15	US	Industrial Production	May	% m/m	0.4	-		1.08

Source: Santander Bank Polska, Bloomberg, Parkiet

* in the case of a revision the data is updated

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